K2FLY LIMITED

ABN 69 125 345 502

Appendix 4E

Preliminary Final Report – 30 June 2021

This report has been prepared in compliance
with ASX Listing Rule 4.3A

Pursuant to ASX Listing Rule 4.3A, the Company makes the following statement:

The financial statements contained in the Appendix 4E are based on accounts which are in the process of being audited.

Appendix 4E
Preliminary Final Report

Name of entity
K2fly Limited

ABN or equivalent company reference	**Preliminary final (tick)**	**Financial year ended ('current period')**
69 125 345 502	✓	30 June 2021

Results announced to the market
(This information should be read in conjunction with the last annual report and any announcements to the market by K2fly Limited during the period)

	Year Ended 30 Jun 21 $A	**Year Ended 30 Jun 20 $A**	**Amount change $A**	**Percentage change %**
Revenue from ordinary activities	6,954,942	5,601,481	1,353,461	24.16
Loss from ordinary activities after tax attributable to members	(2,962,795)	(3,330,987)	368,192	(11.05)
Net loss for the year attributable to members	(2,962,795)	(3,330,987)	368,192	(11.05)

Comment

K2fly invoiced a total of $7.60m during FY21 representing an 15% increase from the prior year (FY20: $6.63m). K2fly's revenue reported for FY21 of $6.95m represents a 24% increase from prior year (FY20: $5.60m). The increase in revenue from ordinary activities is due to the continued growth of the Company, new contract wins and sales to Tier 1 clients.

Revenue in this Appendix 4E is recognised and presented in accordance with International Financial Reporting Standards (**IFRS**) including AASB 15 Revenue from Contracts with Customers. At 30 June 2021, an amount of $2.06m (30 June 2020: $1.34m) in contract liabilities (deferred revenue) is included in the statement of financial position, representing amounts billed for sales where performance obligations from those contracts have not been fully satisfied; these amounts will be reflected in next year's reported revenue.

Included in the period FY21 net losses are:

- non-cash share-based payment expenses for options issued to employees under the Company's Employee Incentive Option Plan and to directors, as approved by shareholders, and securities issued to corporate advisors totalling $557,830 (30 June 2020: $440,162) (refer to note 15);
- non-cash amortisation of software expense ($361,772) (refer to note 7); and
- stamp duty and acquisition costs in relation to the acquisition of Sateva and Decipher $422,653 (30 June 2020: nil) (refer to note 16).

Dividends (distributions)

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2021.

Net tangible asset per ordinary security	30 June 2021	30 June 2020
Net tangible assets	9,328,627	4,226,548
Number of shares on issue at reporting date	137,977,777	91,546,781
Net tangible asset per ordinary security	6.76 cents	4.62 cents

Control Gained or Lost over Entities

On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). Sateva provides innovative software solutions and IT consulting services, including software development and services for sectors in which the Company already operates including mining, resources, and rail industries. Sateva had 3 products in production, development or near commercialisation (Sateva Maximum Return, Sateva Model Manager and Sateva Automation).

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' (together **Decipher**). Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers.

The Sateva and Decipher software products suite acquisitions will strengthen K2fly's technical assurance suite of software solutions that address global tier 1 and tier 2 mining companies with the objective of the acquisitions including exposure to future potential cash flows. Refer to note 16 for details on the acquisitions.

Associates and joint ventures

Not Applicable

Foreign Entities Accounting Framework

Not Applicable

Brian Miller
Executive Director and CEO
31 August 2021

The information required by listing rule 4.3A is contained in this Appendix 4E.

K2FLY LIMITED

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Preliminary Final Report – 30 June 2021

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

	Notes	2021 $	2020 $
Revenue	5	6,954,942	5,601,481
Cost of sales		(3,272,257)	(3,298,975)
Gross profit		**3,682,685**	**2,302,506**
Other income		117,268	79,365
Administration expense		(493,288)	(197,961)
Amortisation expense		(361,772)	(86,240)
Compliance & regulatory expense		(155,428)	(126,103)
Consultancy expense		(593,356)	(282,780)
Depreciation plant and equipment		(34,253)	(23,733)
Depreciation right of use assets		(81,876)	(71,532)
Directors fees		(120,000)	(120,000)
Employee benefit expense		(3,353,244)	(2,398,578)
Occupancy expense		(73,067)	(51,319)
Public relations & marketing expense		(380,679)	(402,064)
Research costs		(58,655)	(69,200)
Share-based payments reversal / (expense)	15	(557,830)	(440,162)
Travel expense		(19,091)	(187,880)
Finance expense		(17,736)	(10,628)
Stamp duty		(288,000)	-
Acquisition expenses	16	(134,653)	-
Milestone incentive payments		-	(1,200,000)
Foreign exchange		(39,820)	(132,820)
Loss before income tax expense		(2,962,795)	(3,419,129)
Income tax benefit		-	88,142
Loss for the year		(2,962,795)	(3,330,987)
Other comprehensive income, net of income tax:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries		(1,904)	23,153
Income tax relating to these items		-	-
Other comprehensive income for the year, net of tax		**(1,904)**	**23,153**
Total comprehensive loss for the year		**(2,964,699)**	**(3,307,834)**
Basic and diluted loss per share (cents per share)	4	(2.81)	(4.08)

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Preliminary Final Report – 30 June 2021

Consolidated Statement of Financial Position
As at 30 June 2021

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents		6,906,331	2,919,788
Trade and other receivables		2,164,674	1,152,714
Total current assets		9,071,005	4,072,502
Non-current assets			
Restricted cash		125,175	20,000
Plant and equipment		60,704	39,196
Right of use assets	6	70,899	94,006
Intangible assets	7	5,655,144	337,773
Goodwill	8	7,342,817	731,543
Other financial assets		844	844
Total non-current assets		13,255,583	1,223,362
Total assets		22,326,588	5,295,864
Liabilities			
Current liabilities			
Trade and other payables	9	1,670,427	956,718
Provisions	10	2,232,552	931,910
Interest bearing lease liabilities	11	49,172	66,971
Contract liabilities	12	2,059,890	1,344,058
Total current liabilities		6,012,041	3,299,657
Non-current liabilities			
Provisions	10	3,030,653	442,437
Interest bearing lease liabilities	11	36,667	33,230
Deferred tax liabilities		1,256,475	-
Total non-current liabilities		4,323,795	475,667
Total liabilities		10,335,836	3,775,324
Net assets		11,990,752	1,520,540
Equity			
Issued capital	13	30,865,720	18,189,874
Reserves	14	1,978,257	1,221,096
Accumulated losses		(20,853,225)	(17,890,430)
Total equity		11,990,752	1,520,540

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Consolidated statement of changes in equity
For the year ended 30 June 2021

	Issued capital $	Performance rights reserve $	Option reserve $	FCTR reserve $	Asset revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2019	**15,661,041**	**199,100**	**385,507**	**(1,030)**	**120**	**(14,559,443)**	**1,685,295**
Loss for the year	-	-	-	-	-	(3,330,987)	(3,330,987)
Other comprehensive income	-	-	-	23,153	-	-	23,153
Total comprehensive loss for the year	-	-	-	23,153	-	(3,330,987)	(3,307,834)
Issue of shares – placement	1,000,000	-	-	-	-	-	1,000,000
Issue of shares – exercise of options	1,854,717	-	-	-	-	-	1,854,717
Share issue costs	(151,800)	-	-	-	-	-	(151,800)
Share-based payments - shares	30,000	-	-	-	-	-	30,000
Share-based payments - options	(204,084)	-	614,246	-	-	-	410,162
Balance as at 30 June 2020	**18,189,874**	**199,100**	**999,753**	**22,123**	**120**	**(17,890,430)**	**1,520,540**
Balance at 1 July 2020	**18,189,874**	**199,100**	**999,753**	**22,123**	**120**	**(17,890,430)**	**1,520,540**
Loss for the year	-	-	-	-	-	(2,962,795)	(2,962,795)
Exchange differences on translation of foreign subsidiaries	-	-	-	(1,904)	-	-	(1,904)
Total comprehensive loss for the year	-	-	-	(1,904)	-	(2,962,795)	(2,964,699)
Issue of shares – Placement	7,250,000	-	-	-	-	-	7,250,000
Issue of shares – exercise of options	648,000	-	-	-	-	-	648,000
Issue of shares – Sateva acquisition	2,000,000	-	-	-	-	-	2,000,000
Issue of shares – Decipher acquisition	3,410,007	-	-	-	-	-	3,410,007
Issue of options – Argonaut placement options (note 13(a))	23	-	-	-	-	-	23
Share issue costs	(430,949)	-	-	-	-	-	(430,949)
Share-based payments – shares	15,000	-	-	-	-	-	15,000
Share-based payments – options	(216,235)	-	759,065	-	-	-	542,830
Balance as at 30 June 2021	**30,865,720**	**199,100**	**1,758,818**	**20,219**	**120**	**(20,853,225)**	**11,990,752**

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Preliminary Final Report – 30 June 2021

Consolidated Statement of Cash Flows
For the year ended 30 June 2021

	Notes	2021 $ Inflows / (Outflows)	2020 $ Inflows / (Outflows)
Cash flows from operating activities			
Receipts from customers		7,126,977	6,296,693
Payments to suppliers and employees		(8,788,211)	(6,967,348)
Government grants received		115,527	164,663
Interest received		1,448	279
Interest paid		-	(9,686)
Income tax paid		8,789	-
Movement of cash from non-restricted to restricted		(105,175)	(5,000)
Net cash (used in) operating activities		**(1,640,645)**	**(520,399)**
Cash flows from investing activities			
Payments for plant and equipment		(34,387)	(20,458)
Intangible asset (internally generated)		(1,110,143)	-
Investment in subsidiaries (Sateva)	16	(2,511,836)	-
Investment in subsidiaries (Decipher)	16	(5,509)	-
Payments for vendor incentive remuneration		(550,000)	(100,000)
Investment in subsidiaries acquisition costs	16	(134,653)	(55,439)
Cash acquired on acquisition of accounting (Sateva)		2,685,996	-
Net cash (used in) investing activities		**(1,660,532)**	**(175,897)**
Cash flows from financing activities			
Proceeds from the issue of shares		7,250,000	1,000,000
Payments for share issue costs		(472,648)	(151,800)
Proceeds from exercise of options		648,000	1,854,719
Proceeds from issue of options		23	-
Repayment of lease liabilities		(84,544)	(75,045)
Net cash provided by financing activities		**7,340,831**	**2,627,874**
Net increase / (decrease) in cash held		**4,039,654**	**1,931,578**
Cash at beginning of the year		2,919,788	1,059,247
Effects of exchange rate fluctuations on cash held		(53,111)	(71,037)
Cash and cash equivalents at the end of the year		**6,906,331**	**2,919,788**

1. Basis of preparation

The financial statements comprise the consolidated financial statements for K2fly Limited (**Company**) and its controlled entities (**Group**). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments which have been measured at fair value. Historical cost is based on the fair values of the consideration given in exchange for goods and services. The financial statements are presented in Australian dollars.

The Company is a listed public Company, incorporated and operating in Australia.

2. Significant accounting judgements and key estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Impairment
In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Capitalisation of internally developed software
Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Impairment of intangibles with indefinite useful lives and goodwill
The Group determines whether intangibles with indefinite useful lives and goodwill are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in notes 7 and 8.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees, directors and consultants, where the fair value of the service cannot be reasonably estimated, by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined in reference to the prevailing share price on date of grant or by using a Black-Scholes model using the assumptions detailed in note 15.

Performance rights
The Company measures performance rights based upon the grant date being the date of a shared understanding of the terms and conditions being achieved or the date of shareholder approval if required. Where the grant date is after the period in which services have begun to be rendered, the grant date fair value is estimated by reference to the period end share price.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Business combinations
Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

Fair value of financial instruments
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants

would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has an option, under one of its leases to lease the assets for additional terms of 12 months. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

3. Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

Notwithstanding the fact that the Company incurred an operating loss for the period ended 30 June 2021 of $2,962,795 (30 June 2020: $3,330,987), had cash and cash equivalents of $6,906,331 at 30 June 2021 (30 June 2020: $2,919,788), had a net working capital surplus of $3,058,964 (30 June 2020: $772,845) and a net cash outflow from operating activities amounting to $1,640,645 (30 June 2020: $520,399), the Directors are of the opinion that the Company is a going concern for the reasons outlined below.

The Group's ability to continue as a going concern and to continue to fund its planned activities and operations is dependent on generating additional revenues from its operations and/or reducing operational costs, and if necessary, raising further capital. Based on the management budget and our ongoing monitoring of our revenue, costs and cash position, at this stage the Company has no immediate plans to raise further cash to fund its current operations.

The Directors believe the Group will continue as a going concern, after consideration of the following factors:

- regular review of management accounts and cash flow forecast, incorporating expected cash inflows from sales invoice and collection of trade receivables;
- close management of both its operating costs and corporate overheads;
- sales pipeline continues to grow and K2fly is confident of achieving further sales growth across a number of clients and different product offerings;
- existing contracts are expected to deliver materially significant revenue in the upcoming financial year from both consulting activities and in software sales;
- the Company has a number of unlisted options on issue. If the options are exercised this will result in a significant capital injection into the Company; and
- the Company has the ability to raise funds through equity issues (if required).

4. Loss per share

Earnings per share	**2021**	**2020**
Basic loss per share (cents per share)	(2.81)	(4.08)
Weighted average number of shares	105,267,006	81,633,144

5. Revenue

The Group derives its revenue from the sale of goods and the provision of services at a point in time and over time in the categories detailed below. The Group operates in one business and geographical segment being the technology sector in Australia. The revenue information disclosed below is consistent with reporting by segment under AASB 8.

	2021 $	2020 $
At a point in time		
Consulting and implementation revenue (provided on a fixed price basis)	908,051	716,891
Sales of third-party software (provided via a perpetual license)	18,700	29,000
	926,751	745,891
Over time		
Consulting and implementation revenue (provided on a time and material basis)	3,223,452	3,524,968
Hosting services revenue	193,773	106,561
Sales of own software (provided as a service)	2,610,966	1,224,061
	6,028,191	4,855,590
	6,954,942	5,601,481

The Group has applied *AASB 15 Revenue* from Contracts with Customers. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Please refer to note 18 (contract liability) for details on deferred revenue representing contracts that have been billed however the performance obligations are unsatisfied or partially satisfied.

The Group did not recognise any impairment loss on receivables and contract assets from contracts with customers in the statement of comprehensive income for the year ended 30 June 2021 (2020: $ nil).

6. Right of use Assets

	2021 $	2020 $
Right of use assets		
Cost	229,959	165,538
Accumulated depreciation	(159,060)	(71,532)
	70,899	94,006
Balance as at beginning of year	94,006	178,749
Acquisition of plant and equipment by means of finance leases	46,971	-
Depreciation	(81,876)	(71,532)
Foreign exchange	11,798	(13,211)
Balance at end of year	70,899	94,006

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. On initial adoption of AASB 16 the Group has adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

7. Intangible Assets

	2021 $	2020 $
Software at cost	6,110,343	431,200
Software - accumulated amortisation	(455,199)	(93,427)
Total Intangible Assets	5,655,144	337,773
Movements:		
Carrying amount at the beginning of the year	337,773	424,013
Acquired as part of Sateva acquisition (a)	565,000	-
Provisionally accounted intangibles as part of Decipher acquisition (b)	4,004,000	-
Internally generated intangible assets (c)	1,110,143	-
Amortisation	(361,772)	(86,240)
Carrying amount at the end of the year	5,655,144	337,773

(a) On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). Consideration of $7,352,103 was paid for the acquisition of which $565,000 was ascribed to the intellectual property rights associated with the Sateva software based on an independent valuation.

(b) On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' (together **Decipher**). Consideration of $4,810,155 was paid for the acquisition of which $4,004,000 was ascribed to the intellectual property rights associated with the Decipher software based on an independent valuation at 12 August 2021 (refer note 16).

(c) Expenditure in relation to development of the Company's own IP to enhance its current Software as a Service (**SaaS**) product suite and as additional opportunities in the Resources' sector, including:
- Increased investment in new product development within the SATEVA suite of technical assurance solutions Model Manager and Ore Blocker
- Continued investment in the Tailings Governance Solution
- Upgrading the leading RCubed Mineral Inventory Governance and Reporting solution to support our rapidly growing customer list of Tier 1 and Tier 2 miners
- Development of NextGen which utilises Infoscope and Decipher for Mining for a land management solution

8. Goodwill

	2021 $	2020 $
Goodwill	7,342,817	731,543
Movements:		
Carrying amount at the beginning of the year (a)	731,543	731,543
Acquired as part of Sateva acquisition (b)	4,430,642	-
Provisionally accounted goodwill as part of Decipher acquisition (c)	2,180,632	-
Carrying amount at the end of the year	7,342,817	731,543

(a) Goodwill arose in relation to the Infoscope Acquisition (refer note 34 of the FY19 annual report for details). During the year ended 30 June 2021, management engaged an external firm to conduct an impairment assessment in relation to goodwill. The recoverable amount was based on a value-in-use calculation and was determined at the cash-generating unit level (**Infoscope CGU**). The pre-tax discount rate adopted was 29.2% (2020: 29.2%) and the value-in-use was based upon forecast cash flows over a five year period with a final year terminal value. The five year forecast used as the basis for the value-in-use model was based on the 12 month budget (extrapolated over a four year period at a 25% annual growth rate in revenue to provide a total five year forecast model) and forecast assumptions as approved by the Board of Directors. The assumptions are considered reasonable and supportable and were derived with due consideration to actual Infoscope CGU performance indicators, actual revenue achieved in the year immediately before the budgeted year, existing revenue streams, and potential new client revenue streams.

The Company has considered the impact of possible changes in key assumptions. Based on a sensitivity analysis undertaken, the following possible changes (taken in isolation) would not result in a reduction of the carrying value of goodwill:

- reduction of forecast revenue of up to 22% against management's estimates at 30 June 2021;
- adjustment of terminal value amount to $0.3m;
- increase in the post-tax discount rate to over 54%; and
- increase of 35% in allocated overhead costs.

Based upon the value in use calculation, no impairment has been recognised.

(b) Goodwill arose in relation to the Sateva acquisition (refer note 16). As the business combination was only recently completed during the period, management are of the view that the key assumptions underlying the acquisition remain valid and as such there is no indication of impairment at the reporting date.

(c) Goodwill arose in relation to the Decipher acquisition (refer note 16). As the business combination was only recently completed during the period, management are of the view that the key assumptions underlying the acquisition remain valid and as such there is no indication of impairment at the reporting date.

9. Trade and Other Payables

	2021 $	2020 $
Current		
Accounts payable	353,454	443,158
Accrued expenses	656,778	166,244
Sateva Deferred Consideration payable	118,667	-
Other payable	193,464	124,958
Employee liabilities	348,064	222,358
	1,670,427	956,718

10. Provisions

	2021 $	2020 $
Current		
Employee leave provisions	473,863	231,910
RCubed Milestone Incentives (a)	450,000	700,000
Sateva deferred consideration (b)	471,600	-
Provisionally accounted Decipher performance shares (c)	837,089	-
	2,232,552	931,910
Non-Current		
Employee leave provisions	123,103	42,437
RCubed Milestone Incentives (a)	100,000	400,000
Sateva deferred consideration (b)	2,250,000	-
Provisionally accounted Decipher performance shares (c)	557,550	-
	3,030,653	442,437
Total Current and Non-Current	5,263,205	1,374,347

(a) On 31 May 2019 K2F RCubed, a wholly owned subsidiary of the Company, acquired 100% of the assets of RCubed Global, XCube and Prodmark relating to the RCubed Resources and Reserve Reporting software pursuant to an asset sale agreement (**Agreement**).

In accordance with the terms of the Agreement (as varied) the following incentive payments have been paid or are payable:

- Milestone Payment A (being $600,000) – RCubed sales generated not less than AUD$500k of new net recurring annual licence revenue from the RCubed business product from existing and new customers (New Net Revenue) over the 12 month period commencing from the date of completion (31 May 2019);
- Milestone Payment B (being $400,000) - RCubed sales generated not less than AUD$500k of New Net Revenue in the 12 month period from the end of the Milestone A payment period; and
- Milestone Payment C (being $200,000) - RCubed sales achieved up to AUD$500k of New Net Revenue in the 12 month period from the end of the Milestone B payment period.

With the additional contracts secured for K2F's RCubed resource governance solution, the performance milestone revenue hurdles (which were set to be achieved over a three-year period) were achieved in just thirteen months since acquisition, and as such the full provision was recognised in FY20.

At 30 June 2021, all of the Milestone Payment A has been paid and $50k of the Milestone Payment B had been made. The balance of the Milestone Payment B and Milestone Payment C (totalling $550k) are included in provisions at 30 June 2021.

(b) In accordance with the terms of the Sateva acquisition (refer to note 16), the Company will pay additional performance-based consideration (**Deferred Consideration**) to Sateva. Deferred Consideration will be payable until 30 June 2024 and equates to an amount equal to 18% of the invoiced amounts relating to product and product consulting sales, during that time, from the SATEVA Software Products, ongoing or additional development of those products and any other documented or concept products that are being developed by SATEVA. At 30 June 2021, the Company recognized an initial amount of $2,840,267 in respect to Deferred Consideration, of which $118,667 had been achieved at 30 June 2021 (refer note 9).

(c) In accordance with the terms of the Decipher acquisition (refer to note 16), the Company will issue performance shares on an annual basis which are converted into a number of fully paid ordinary shares to a value equal to 22% of the annual revenues attributable to the Decipher business, over a 4 year period following completion (**Performance Shares**). Each tranche of shares issued on conversion of the performance shares will also be subject to voluntary escrow for 12 months. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP as a result of the conversion of the performance shares. At 30 June 2021, the Company is yet to fair value the Performance Shares. As such, the acquisition has been provisionally accounted for in accordance with AASB 3. Any potential adjustments to provisional amounts, and the identification of newly identifiable assets and liabilities, will be made within the measurement period.

11. Interest bearing lease liabilities

	2021 $	2020 $
Current		
Lease liability	49,172	66,971
	49,172	66,971
Non-Current		
Lease liability	36,667	33,230
	36,667	33,230
Total Current and Non-Current	85,839	100,201

The Group has also entered a commercial lease to rent office space at its South African branch. The lease has a fixed term of 3 years with a renewal option of a further 12 months following this initial term unless terminated.

12. Contract liabilities

	2021 $	2020 $
Deferred revenue (a)	2,059,890	1,344,058

Movements:	2021 $	2020 $
Opening balance	1,344,058	436,876
Deferred during the year	2,011,462	1,344,058
Acquired as part of Decipher acquisition	74,918	-
Released to the statement of profit or loss	(1,370,548)	(436,876)
Closing balance	2,059,890	1,344,058

(a) Represents aggregate amounts of transaction prices relating to the performance obligations from existing contracts that have been billed and received but are unsatisfied or partially satisfied. A break-down of the revenue line items (as reported at note 2) to which these contracts liabilities will be recognised in the next financial year is as follows:

	2021 $	2020 $
Hosting services revenue	51,815	25,358
Sales of own software (software as a service)	2,008,075	1,318,700
	2,059,890	1,344,058

13. Issued Capital

	2021 $	2020 $
Issued and paid up capital	34,361,719	21,038,690
Share issue costs	(3,495,999)	(2,848,816)
	30,865,720	18,189,874

	2021		2020	
Movements:	**Number**	**$**	**Number**	**$**
Opening balance	91,546,781	18,189,874	75,354,141	15,661,041
Shares issued – Placement (a)	25,000,000	7,250,000	-	-
Broker Options issued – Placement (a)	-	23	-	-
Shares issued – Sateva acquisition (b)	5,633,803	2,000,000	-	-
Shares issued – Decipher acquisition (c)	11,366,691	3,410,007	-	-
Shares issued to advisors (d)	43,860	15,000	-	-
Shares issued – Exercise of options (e)	1,794,642	-	-	-
Shares issued – Exercise of options (f)	2,592,000	648,000	-	-
Shares issued – Placement	-	-	6,250,000	1,000,000
Shares issued – Exercise of listed options	-	-	8,596,096	1,719,217
Shares issued – Vesting of performance rights	-	-	137,500	-
Shares issued to advisors	-	-	81,522	15,000
Shares issued to advisors	-	-	68,182	15,000
Shares issued – Exercise of options	-	-	479,340	-
Shares issued – Exercise of options	-	-	580,000	135,500
Share issue costs	-	(430,948)	-	(355,884)
Share based payments – options	-	(216,235)	-	-
Closing balance	137,977,777	30,865,720	91,546,781	18,189,874

(a) On 27 April 2021, the Company completed a placement of 25,000,000 fully paid ordinary shares at $0.29 per share to raise cash funds of $7,250,000 (before costs) (**Placement**). Funds raised from the Placement will be applied towards potential acquisitions, sales and marketing, product development and general working capital. On the same day, the Company issued 2,265,625 unlisted options at an issue price of $0.00001 each to raise funds of $23, exercisable at $0.435 each on or before 10 March 2024 to Argonaut in relation to the Placement (refer note 15(d)).

(b) On 5 November 2020, the Company issued 5,633,803 shares in respect to the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (Sateva Acquisition) (refer note 16).

(c) On 31 March 2021, the Company issued 11,366,691 shares in respect to the acquisition of Decipher for Mining from CSBP Limited (CSBP) (a subsidiary of Wesfarmers Limited) (**Decipher Acquisition**) (refer note 16).

(d) On 26 October 2020, the Company announced it had executed a new mandate with Canary Capital Pty Ltd (**Canary Capital**), a boutique Sydney headquartered investment management and corporate advisory firm, to continue to provide investor marketing services to the Company (**Investor Marketing Mandate**). On the same day, a total of 43,860 shares were issued to Canary Capital pursuant to Investor Marketing Mandate as equity-settled fees for the six-month period from September 2020 to February 2021, valued at $15,000 which has been recognised as a share-based payment expense during the period (refer note 15(a)).

(e) During the year ended 30 June 2021 the following shares were issued upon the exercise of unlisted options:
- On 10 July 2021, a total of 700,000 shares were issued upon the exercise of 600,000 unlisted options exercisable at $0 each expiring 25 November 2021 (**Series 13**) by Non-Executive Directors of the Company and 100,000 shares exercisable at $0 each expiring 25 November 2021 (**Series 13**) by consultants of the Company
- At various dates in July 2021 and September 2021, a total of 270,933 shares were issued upon the exercise of 270,933 unlisted options exercisable at $0 each expiring 26 November 2020 (**Series 9**) by employees of the Company (issued under the Company's EIOP)
- On 11 June 2021, a total of 450,000 shares were issued upon the exercise of 450,000 unlisted options exercisable at $0 each expiring 27 November 2022 (**Series 22**) by Non-Executive Directors of the Company
- On 11 June 2021, a total of 83,333 shares were issued upon the exercise of 83,333 unlisted options exercisable at $0 each expiring 16 September 2022 (**Series 19**) by consultants of the Company
- On 11 June 2021 and 23 June 2021, a total of 156,453 shares were issued upon the exercise of 156,453 unlisted options exercisable at $0 each expiring 25 November 2021 (**Series 16**) by employees of the Company (issued under the Company's EIOP)
- On 11 June 2021, a total of 133,923 shares were issued upon the exercise of 133,923 unlisted options exercisable at $0

each expiring 26 November 2020 (**Series 14**) by the CEO of the Company.

(f) During the year ended 30 June 2021, a total of 2,592,000 shares were issued upon the exercise of 1,792,000 unlisted options exercisable at $0.25 each on or before 17 November 2020 (Series 1) and 800,000 unlisted options exercisable at $0.25 each on or before 1 December 2020 (Series 2).

14. Reserves

Share-based payments and option reserves

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration or arises from services performed.

	2021 $	2020 $
Performance rights reserve	199,100	199,100
Option reserve (a)	1,758,818	999,753
FCTR reserve	20,219	22,123
Available-for-sale reserve	120	120
	1,978,257	1,221,096
(a) Movements in option reserve		
Carrying amount at the beginning of the period	999,753	385,507
Share-based payments expense – options (recorded through profit or loss)	542,830	410,162
Share-based payments expense – options (recorded through equity in share issue costs)	216,235	204,084
Carrying amount at the end of the period	1,758,818	999,753

15. Share-based Payments Expense

	2021 $	2020 $
Shares issued to advisor (a)	15,000	30,000
Unlisted options issued to advisors (b)	16,495	50,782
Unlisted options issued to directors, employees and consultants (c)	526,335	359,380
	557,830	440,162

(a) Shares

During the year a total of 149,704 shares were issued to Canary Capital pursuant to the Investor Marketing Mandate. Refer to note 13(d).

(b) Unlisted options to advisor

On 26 October 2020, the Company issued to Canary Capital 200,000 unlisted options at an exercise price of $0.70 each expiring 26 October 2022 pursuant to the Investor Marketing Mandate in respect of marketing services provided and to be provided.

The fair value of these options were determined using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the options:

	Canary Options (Series 21)
Dividend yield (%)	Nil
Expected volatility (%)	77%
Risk free interest rate (%)	0.21%
Exercise price ($)	$0.700
Marketability discount (%)	Nil
Expected life of options (years)	2.00
Share price at grant date ($)	$0.355
Value per option ($)	$0.0825

(c) Unlisted options to directors, employees and consultants

During the period, the Company issued the following unlisted options:

- 83,333 unlisted options issued on 17 September 2020 to a consultant of the Company exercisable at $0 each on or before 16 September 2022 (**Bellatrix Options**) (no vesting conditions) (**Series 19**)
- 140,845 unlisted options on 3 November 2020 to Mark Forster pursuant to the Sateva Acquisition agreement for ongoing services to the Company exercisable at $0 each on or before 3 May 2022 (**Sateva Options**) (subject to vesting conditions) (**Series 20**)
- 1,115,879 unlisted options issued on 15 December 2020 to directors, as approved by shareholders at the Company's Annual General Meeting (**AGM**), including:
  - 450,000 unlisted options exercisable at $0 each on or before 27 November 2022 (**ZEP Options**) (no vesting conditions) (**Series 22**)
  - 406,926 unlisted options exercisable at $0 each on or before 27 November 2022 (**ZEP Options**) (subject to vesting conditions) (**Series 23**); and
  - 258,953 unlisted options exercisable at $0.497 each on or before 27 November 2024 (**PEP Options**) (subject to vesting conditions) (**Series 24**); and
- 1,342,114 unlisted options issued on 15 December 2020 to employees under its shareholder approved Employee Incentive Option Plan (**EIOP**), including:
  - 946,878 unlisted options exercisable at $0 each on or before 27 November 2022 (**ZEP Options**) (subject to vesting conditions) (**Series 26**); and
  - 395,236 unlisted options exercisable at $0.497 each on or before 27 November 2024 (**PEP Options**) (subject to vesting conditions) (**Series 27**).

Fair Value of ZEP Options

The fair value of ZEP Options was calculated using a probability-based valuation methodology with reference to the share price at grant date to issue the ZEP Options.

Series	Recipient	Number Issued	Value per ZEP Option	Expected % to vest	Condition	Vested / Not Vested	Total Value $
Series 22	Non-Executive Directors	450,000	$0.335	100%	Non-Market	Vested	$150,750
Series 23	Executive Director / CEO	406,926	$0.335	20%	Non-Market[1]	Not Vested	$10,736
Series 26	Employees (EIOP participants)	946,878	$0.335	35%	Non-Market[1]	Not Vested	$44,008
		1,803,804					$205,494

[1] Options shall vest and become exercisable when any vesting conditions (including remaining employed by the Company for a period of 18 months from date of issue of the ZEP Options, that is remaining employed at 15 May 2022) have been satisfied or waived by the Board. The ultimate number of options that are capable of vesting are based on the extent of achievement against both Company and individual KPIs in respect of the year ended 30 June 2021, as determined by the Board.

Fair Value of PEP Options

The fair value of PEP Options was determined using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model for the options:

	PEP Options (Series 24 and Series 27)
Dividend yield (%)	Nil
Expected volatility (%)	72.90%
Risk free interest rate (%)	0.20%
Exercise price ($)	$0.497
Marketability discount (%)	Nil
Expected life of options (years)	4.0
Share price at grant date ($)	$0.335
Value per option ($)	$0.1485

The PEP Options shall vest and become exercisable upon the employee remaining employed by the Company for a period of 3 years from date of issue of the PEP Options, that is remaining employed at 27 November 2023.

Fair Value of Bellatrix Options and Sateva Options

The fair value of Bellatrix Options and Sateva Options was calculated using a probability-based valuation methodology with reference to the share price at grant date to issue:

Series	Recipient	Number Issued	Value per Option	Expected % to vest	Condition	Vested / Not Vested	Total Value $
Series 19	Bellatrix Options	83,333	$0.36	100%	Non-Market	Vested	$30,000
Series 20	Sateva Options	140,845	$0.355	100%	Non-Market[1]	Vested	$50,000
		224,178					$80,000

[1] Options shall vest and become exercisable when any vesting conditions (including the completion and commercial delivery of 3 software products by SATEVA referred to as Maximum Return, Optimiser and Block Model Manager by 30 June 2021 and Mark Forster remaining as an employee of K2F.

(d) Unlisted options to advisor

On 27 April 2021, the Company issued to Argonaut 2,265,625 unlisted options at an issue price of $0.00001 each to raise funds of $23 at an exercise price of $0.435 expiring 10 March 2024 pursuant to the mandate to act as lead manager in respect to the placement completed in April 2021. Refer to note 13(a).

The fair value of these options were determined using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model for the options:

	Argonaut Options (Series 25)
Dividend yield (%)	Nil
Expected volatility (%)	57%
Risk free interest rate (%)	0.07%
Exercise price ($)	$0.435
Marketability discount (%)	Nil
Expected life of options (years)	2.87
Share price at grant date ($)	$0.330
Value per option ($)	$0.0954

16. Business Combination

Sateva

On 5 November 2020, the Company completed the acquisition of 100% of the issued share capital and voting rights of Sateva Pty Ltd and Sateva Development Pty Ltd (**Sateva**). Sateva provides innovative software solutions and IT consulting services, including software development and services for sectors in which the Company already operates including mining, resources, and rail industries. The Sateva software products suite will strengthen K2fly's technical assurance suite of software solutions that address global tier 1 and tier 2 mining companies with the objective of the acquisition including exposure to future potential cash flows from an established and profitable business.

The fair values of identifiable assets and liabilities were acquired in the business combination were previously provisionally accounted for in accordance with AASB 3. The Company completed a comprehensive analysis of the assets and liabilities acquired, as well as a purchase price allocation, which produced the fair values reported below.

	$
Consideration	
Cash	2,511,836
Equity	2,000,000
Deferred consideration	2,840,267
	7,352,103

	$
Assets Acquired	
Cash acquired	2,685,996
Trade and other receivables	253,604
Tangible fixed assets	14,402
Intellectual property rights – Sateva	565,000
	3,519,002
Less: Trade and other payables	(413,375)
Less: Provisions	(28,791)
Less: Deferred tax liability	(155,375)
Fair value of net assets acquired	2,921,461
Goodwill	**4,430,642**
Net cash outflow/(inflow) arising on acquisition	
Cash paid	2,511,836
Less net cash acquired	(2,685,996)
Net cash outflow	**(174,160)**

The provisional amounts previously disclosed were amended to reflect the final allocations, which comprised attributing a value of $565,000 to intangible assets (based on independent valuation) and the corresponding deferred tax liability of $155,375 with the excess consideration allocated to goodwill.

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 26 October 2020. The fair value of the trade and other receivables acquired as part of the business combination amounted to $253,604 with fixed assets totalling $14,402. The value of intangible assets amounted to $565,000 as outlined in the intangible assets note (refer note 7).

Goodwill

The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination and the value of the workforce of K2fly and Sateva which cannot be recognised as an intangible asset and deferred tax liability on intangible asset acquired. At the reporting date, the Board have conducted an impairment assessment in relation to the recoverable amount of its intangible assets and determined that no impairment is required.

Deferred Consideration

In accordance with the terms of the acquisition, the Company will pay additional performance-based consideration (**Deferred Consideration**) to Sateva. Deferred Consideration will be payable until 30 June 2024 and equates to an amount equal to 18% of the invoiced amounts relating to product and product consulting sales, during that time, from the SATEVA Software Products, ongoing or additional development of those products and any other documented or concept products that are being developed by SATEVA. Refer to note 10 for details.

Sateva contribution to the Group's results

Acquisition related costs of $85,520 are included in the condensed statement of comprehensive income for this reporting period.

The acquired entities contributed $1,314,548 to the Group's revenues from the date that K2Fly assumed control being 26 October 2020 to 30 June 2021. Had Sateva been part of the Group for the full year, total revenue would have increased by approximately $809,163 and net loss increased by approximately ($633,350).

Decipher

On 31 March 2021, the Company completed the acquisition of the assets held by CSBP Limited (**CSBP**) and Wesfarmers Chemicals, Energy & Fertilisers Limited (**WesCEF**) used in the operation of the 'Decipher for Mining' (together **Decipher**). Decipher offers cloud-based software-as-a-service monitoring and compliance solutions in tailings management and rehabilitation for mining industry customers. The Decipher software products suite will strengthen K2fly's technical assurance suite of software solutions that address global tier 1 and tier 2 mining companies with the objective of the acquisition including exposure to future potential cash flows.

Provisional Accounting

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. These provisional amounts are adjusted during the measurement period (refer to the Business Combination accounting policy contained in the FY20 annual report for details), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The provisional fair value of identifiable assets and liabilities acquired in the business combination are as follows:

	$
Consideration	
Cash	5,509
Equity	3,410,007
Performance shares	1,394,639
	4,810,155

	$
Assets Acquired	
Trade and other receivables	28,001
Tangible fixed assets	5,353
Intellectual property rights – Decipher	4,004,000
	4,037,354
Less: Contract liabilities	(74,918)
Less: Provisions	(231,813)
Less: Deferred tax liability	(1,101,100)
Fair value of net assets acquired	2,629,523
Excess consideration paid over net assets acquired [1]	**2,180,632**
Net cash outflow arising on acquisition	
Cash paid	5,509
Less net cash acquired	-
Net cash outflow	**5,509**

[1] At reporting date, the business combination has been accounted for using provisional amounts in accordance with AASB 3.

Identifiable net assets

The fair values of the identifiable intangible assets have been determined at 31 March 2021. The fair value of the trade and other receivables acquired as part of the business combination amounted to $28,001 with fixed assets totalling $5,353. The value of intangible assets amounted to $4,004,000 as outlined in the intangible assets note (refer note 7).

Goodwill

The goodwill that arose on the combination can be attributed to the synergies expected to be derived from the combination and the value of the workforce of K2fly and Decipher which cannot be recognised as an intangible asset ($4,004,000) and deferred tax liability on intangible asset acquired ($1,101,100).

Deferred consideration

In accordance with the terms of the Agreement, the performance shares issued will convert on an annual basis into a number of fully paid ordinary shares to a value equal to 22% of the annual revenues attributable to the Decipher business, over a 4 year period following completion. Each tranche of shares issued on conversion of the performance shares will also be subject to voluntary escrow for 12 months. A maximum of 5,345,633 fully paid ordinary shares in the Company can be issued to CSBP as a result of the conversion of the performance shares. At 30 June 2021, the Company is yet to fair value the Deferred Consideration. As such, the acquisition has been provisionally accounted for in accordance with AASB 3. Any potential adjustments to provisional amounts, and the identification of newly identifiable assets and liabilities, will be made within the measurement period.

Decipher contribution to the Group's results

Acquisition costs incurred by the Company in respect to the Decipher transaction, and included in the Consolidated Statement of Comprehensive Income, amounted to $49,133. In addition, the Company has accrued stamp duty of $288,000 as at 30 June 2021 in relation to the acquisition of Decipher.

The acquired assets contributed $105,303 to the Group's revenues from the date that K2fly assumed control being 31 March 2021 to 30 June 2021. The Company is unable to reliably determine the impact on net revenue and net profit for this same time period.